

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
Maquoketa, Iowa

FINANCIAL STATEMENTS
December 31, 2005

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**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
UTILITY BOARD OF TRUSTEES
December 31, 2005**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kent Shouse	Chairman	December 2005
Dave Knoebel	Vice Chairman	December 2007
Marilou Risser	Secretary	December 2007
Ron Frandsen	Board Member	December 2009
Bob Gavin	Board Member	December 2009

INDEPENDENT AUDITOR'S REPORT

Utility Board of Trustees
Maquoketa Municipal Electric Utility
Maquoketa, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund, and the aggregate remaining fund information of the Maquoketa Municipal Electric Utility, a component unit of the City of Maquoketa, as of and for the year ended December 31, 2005, which collectively comprise the Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Utility officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund, and the aggregate remaining fund information of the Maquoketa Municipal Electric Utility as of December 31, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2006, on our consideration of the Maquoketa Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 11 and on page 21 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Maquoketa Municipal Electric Utility. The combining nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maquoketa, Iowa
March 23, 2006

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

I. INTRODUCTION

This management discussion and analysis (MD&A) of Maquoketa Municipal Electric Utility's (MMEU) financial performance provides an overview of MMEU's financial activities for the fiscal year ending December 31, 2005. The information in this MD&A should be considered in conjunction with the financial statements that follow this section.

II. OVERVIEW OF BUSINESS

The City of Maquoketa established a municipal electric utility in 1919 in order to provide electricity to the City's streetlights. When it became apparent to local residents, that the City could also provide electricity to homes and businesses, the municipal electric utility was expanded and more generating units were added at its power plant. The City's electric utility actually operated for many years in direct competition with a private electric company until 1984 when the City purchased the Maquoketa assets and property of the Iowa Electric Light and Power Company. The two electric systems were eventually combined into one system.

The Maquoketa City Council and the Maquoketa City Managers were responsible for the oversight and administration of the municipal electric utility until 1985. The Maquoketa voters established an independent Board of Trustees to oversee the municipal electric utility on November 5, 1985. The utility was officially named Maquoketa Municipal Electric Utility (MMEU), and a Utility Manager was hired by the Board of Trustees to manage the electric utility.

III. GENERAL OVERVIEW OF UTILITY OPERATIONS

Governance of MMEU is now vested in a five-member Board appointed by the Mayor of Maquoketa with approval of the City Council. Members of the board of Trustees serve for six-year staggered terms. The Board has complete control of MMEU management and employs 20 full-time employees. MMEU's administrative office is located at City Hall.

MMEU has expanded over the years and currently provides electric service to virtually all parts of Maquoketa and some rural areas to the south of Maquoketa. MMEU presently serves approximately 2,990 residential customers, 571 commercial customers and 10 industrial customers.

MMEU owns distribution lines and transmission lines. MMEU owns and operates two power plants. Plant 1, or the original plant built in 1919, is on the north side of the City, and presently has the capacity to generate 24,710 kWh of power. Plant 2 was built in the City's South Industrial Park along U.S. Highway 61 on the City's south side. Plant 2 has the capacity to generate 8,000 kWh of power. The generating units at Plant 1 can operate on either diesel fuel or natural gas, and the units at Plant 2 operate on diesel fuel only. Plants 1 and 2 generated 1,707,276 kWh of power in 2005 or about 2.3% of the total power needs of the City.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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When diesel fuel prices substantially increased in the 1970's, it became more cost effective for the City to purchase electric power at a wholesale rate from private companies that operated coal-fired and nuclear power plants. The City also joined a consortium of other municipally owned electric utilities known as the Resale Power Group of Iowa (R.P.G.I.) in the 1970's. The R.P.G.I. negotiates the contracts for wholesale electric power from private electric companies on behalf of its member utilities. MMEU signed a five-year agreement for the purchase of wholesale electric power with the R.P.G.I. in late 2003 that became effective on January 1, 2004. The R.P.G.I. in turn has a contract with Ameren Energy, Inc. for wholesale electric power for the participants or members of the R.P.G.I. In 2005, MMEU purchased 75,183,588 KWH or 97.7% of its power needs from Ameren Energy through the R.P.G.I. contract.

IV. OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the financial statements and represents management's examination and analysis of MMEU's financial condition and performance. The financial statements contain information about MMEU based on cash accounting methods as utilized by similar entities in the private sector.

The statement of cash receipts, disbursements, and changes in cash balances presents the results of MMEU's receipts and disbursements over the course of the calendar year and provides information about MMEU's recovery of costs. Electric rates are established by the Board of Trustees and are based on MMEU's Cost of Service Study. The Cost of Service Study estimates annual revenue requirements through an analysis of operational and maintenance expenses, debt service requirements, anticipated capital needs, and return on capital. The study provides a core of information not only for the trustees and staff at MMEU, but also for the customers ultimately affected by the Board's decisions.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes supplement the financial statements by presenting information about MMEU's accounting policies, significant account balances and activities, material risks, obligations and commitments.

V. MMEU/CITY AGREEMENTS

Although MMEU operates as an independent department of the City of Maquoketa, there is a written cooperative agreement between the City and MMEU that defines shared services and joint efforts. MMEU also provides water meter reading services to the City for \$0.35 per month per meter.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

VI. MMEU BUDGET AND RATES

MMEU has adopted a calendar year budget that reports on a cash basis. MMEU contracts with an electric consultant to perform a Cost of Service Study to assist the Board in rate setting policy. Latham & Associates, Inc. completed the most recent electric price design study on December 1, 2003.

The current electric structure went into effect on July 1, 2004. Monthly MMEU rates are as follows:

Residential		
Basic Service \$/Meter		10.00
\$/KW:		
\$/kWh 1 st 600		0.0790
\$/kWh over 600 & Elec Ht		0.0690
SGS Non-Demand/Municipal		
Basic Service \$/Meter:		20.00
\$/KW		
\$/kWh 1 st 4200		0.0906
\$/kWh over 4200 & Elec Ht		0.0806
LGS-50 Demand		
Basic Service \$/Meter:		
\$/KW		13.5164
\$/kWh		0.0436
LGS-2000 Demand		
Basic Service \$/Meter:		
\$/KW		13.5164
\$/kWh		0.0356
Security Lights		
Basic Service \$/Meter:		
50 W HPS		6.75
100 W HPS		8.50
175 W HG		10.00
250 W HPS		14.00
400 W HPS		18.00
1000 W HPS		30.00

Sales by type of customer account are as follows:

	<u>Accounts</u>	<u>kWh Sold</u>
Residential	2,990	24,560,902
Commercial SGS	571	29,966,330
Power LGS	10	20,119,060
Security Lights	329	537,291

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

VII. FINANCIAL HIGHLIGHTS

MMEU's total revenues increased from \$6,585,693 in 2004 to \$7,287,321 in 2005, an increase of 10.7%. The increase in MMEU revenues was due largely to an increase in kWh sales and the implementation of an increase in electric rates on January 1, 2004 and on July 1, 2004, as recommended by Latham & Associates, Inc.

MMEU's total disbursements decreased from \$7,072,179 in 2004 to \$6,757,260 in 2005, a decrease of \$314,919. Although power costs increased over \$335,000, fewer capital projects and reduced other costs more than offset the additional cost of power.

VIII. PROGRAM REVENUES

MMEU generated revenues from the following sources in 2004 and 2005:

	<u>2004</u>	<u>2005</u>
1. Charges for Services:		
Residential	\$ 2,165,840	\$ 2,392,363
Commercial	2,711,963	2,962,353
Power Sales	1,453,581	1,555,259
Security Lights	<u>71,124</u>	<u>72,106</u>
	6,402,508	6,982,081
2. Intergovernmental	-	-
3. Use of Money/Property	34,506	89,787
4. Miscellaneous	<u>148,679</u>	<u>215,453</u>
Total Revenues	<u>\$ 6,585,693</u>	<u>\$ 7,287,321</u>

IX. PROGRAM EXPENSES

A comparison of MMEU 2004 and 2005 disbursements is as follows:

	<u>2004</u>	<u>2005</u>
General Operating	\$ 6,173,747	\$ 5,835,804
Debt Service	<u>898,432</u>	<u>921,456</u>
Total	<u>\$ 7,072,179</u>	<u>\$ 6,757,260</u>

Wholesale power costs increased by \$335,519 or 12.3% from 2004 to 2005. This increase in costs was "passed on" to MMEU customers as a purchase power adjustment on their monthly billing.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

X. MMEU CASH BALANCES OR ASSETS

MMEU operates on a cash basis accounting system using six funds. Almost all revenues are credited and expenses paid through the General Operating Fund. The Board authorized closing the Capital Projects fund this year. A comparison of the cash balances in the MMEU funds are as follows:

<u>Fund</u>	<u>Balance 12/31/2004</u>	<u>Balance 12/31/2005</u>
1. General Operating	\$ 3,162,105	\$ 2,698,361
2. Capital Projects	(1,509,845)	-
3. Electric Surplus	691,000	171,500
4. Bond Sinking	223,913	224,463
5. Bond Reserve	716,500	716,500
6. Customer Deposits	48,119	51,029
Total	<u>\$ 3,331,792</u>	<u>\$ 3,861,853</u>

The General Operating Fund is divided into nine accounts.

<u>Account</u>	<u>Balance 12/31/2004</u>	<u>Balance 12/31/2005</u>
1. Operating Account	\$ 2,953,693	\$ 2,173,409
2. Insurance Account	51,677	54,497
3. Vehicle Reserve - Distribution	75,845	95,496
4. Vehicle Reserve – Plant	956	9,956
5. Power Requirements	28,923	-
6. Heavy Equipment	3	15,003
7. Boiler Replacement	1,008	-
8. Sub I Improvement	-	250,000
9. Fuel Tank Replacement	50,000	100,000
Total	<u>\$ 3,162,105</u>	<u>\$ 2,698,361</u>

Note that cash assets were used to close out the Capital Projects fund.

XI. CONDENSED REVENUES, EXPENSES AND CHANGE IN CASH BALANCES

	<u>2004</u>	<u>2005</u>
Starting Cash Balance – All Funds	\$ 3,818,278	\$ 3,331,792
Total Revenues	6,585,693	7,287,321
Total Expenses	7,072,179	6,757,260
Ending Cash Balance – All Funds	<u>\$ 3,331,792</u>	<u>\$ 3,861,853</u>

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

XII. MMEU OUTSTANDING DEBT

The MMEU Board of Trustees issued \$3,570,000 in electric revenue notes on November 1, 2001 to finance additional electric generating units. The Board also issued \$3,595,000 in electric revenue notes on May 1, 2002 to finance improvements to the electric distribution system and Power Plant 2. The outstanding balances of the two revenue notes as of December 31, 2005 were as follows:

Series 2001 Electric Notes	\$ 2,315,000
Series 2002 Electric Notes	<u>2,280,000</u>
Total	<u>\$ 4,595,000</u>

A comparison of the debt paid and outstanding balances for 2004 and 2005 is as follows:

	<u>2004</u>	<u>2005</u>
Starting Debt Balance	\$ 5,885,000	\$ 5,250,000
Debt Retired	<u>(635,000)</u>	<u>(655,000)</u>
Ending Debt Balance	<u>\$ 5,250,000</u>	<u>\$ 4,595,000</u>

XIII. SIGNIFICANT CAPITAL IMPROVEMENTS

MMEU completed the following capital improvement projects in 2005:

1. Circuit switch at I.S. substation.
2. Line rebuild on Kathey Drive.
3. Travel Plaza installation, water treatment plant project, Wady transformer and building addition at distribution facility.

Capital equipment purchased in 2005:

Small Digger	<u>\$ 165,000</u>
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In addition to these improvements, the Board of Trustees pledged \$350,000 to the Area Recreation Center (ARC) in 2004. The first payment of \$70,000, scheduled to be paid in 2005, was not paid because of construction delays.

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

XIV. ANALYSIS OF OVERALL FINANCIAL POSITION

MMEU overall financial position did not significantly change in 2005. MMEU's total cash reserves declined somewhat in 2005 because of transfers to close capital projects. As expected, there was a significant increase in wholesale cost of power. This increase in power costs was recovered by an increase in electric rates.

XV. ANALYSIS OF BALANCES AND TRANSACTIONS

The significant increase of \$530,061 in the MMEU General Operating Fund cash balance shows the effect of a full year of rate increases.

XVI. ANALYSIS OF VARIATIONS BETWEEN ORIGINAL AND FINAL BUDGET AMOUNTS

There was a relatively small difference between the MMEU original budget and the actual results.

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Expenditures	\$6,998,275	\$7,225,500	\$6,757,260

The difference resulted from variations in the following items:

1. Administration
 - a. Salaries
 - b. Return checks
 - c. Utilities
 - d. Transfer outs
 - e. Unemployment comp
 - f. Employee insurance
 - g. IPERS
2. Power Plant
 - a. Safety supplies
 - b. Purchase power cost
 - c. Uniform/rental allowance
3. Distribution
 - a. Transformers
 - b. Utilities
 - c. Substation maintenance
 - d. Building maintenance

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

XVII. CURRENT KNOWN FACTS – EFFECT ON FINANCIAL POSITION

There are no known facts, decisions, or conditions that are expected to have a significant effect on MMEU's financial position. MMEU does not anticipate any significant changes in operating expenses, revenues, or net assets in 2006.

As noted earlier, MMEU has just completed the second of five years of the R.P.G.I. contract for purchase power costs. While power costs will increase in each of the next three years, the increases are considered reasonable and will be passed on to MMEU customers.

MMEU has recently completed some very comprehensive and significant capital improvement projects including a circuit switch, line rebuild, building addition, Travel Plaza project, and the Wady transformer. MMEU will continue to make improvements to the distribution system. These improvements will be financed from the General Operating Fund without incurring additional debt.

XVIII. FINAL COMMENTS

This MD&A report was written to assist readers in understanding the results reported in the financial statements. It represents MMEU's effort to follow GASB Statement No. 34. The MD&A will be upgraded and improved each year in order to help the reader assess the financial condition of the Maquoketa Municipal Electric Utility.

BASIC FINANCIAL STATEMENTS

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As Of And For The Year Ended December 31, 2005

	<u>Enterprise</u>
Operating receipts:	
Charges for services	\$ 6,982,081
Use of money and property	89,787
Miscellaneous	215,453
Total operating receipts	<u>7,287,321</u>
Operating disbursements:	
General:	
Power purchased	3,058,863
Employee expense	955,008
Contract labor	6,659
Repairs and maintenance	632,098
Supplies and services	109,853
Capital outlay	135,349
Sales and use tax	281,790
Gas and oil	149,077
Insurance	290,790
Franchise fee	105,298
Economic development	18,159
Energy conservation	13,862
Customer deposits	27,636
Utilities	29,180
Miscellaneous	49,818
Debt service:	
Bond principal payment	655,000
Interest	238,820
Total operating disbursements	<u>6,757,260</u>
Net change in cash balances	530,061
Cash balances beginning of year	<u>3,331,792</u>
Cash balances end of year	<u>\$ 3,861,853</u>
Cash basis net assets	
Unrestricted	<u>\$ 3,861,853</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and note to financial statements.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As Of And For The Year Ended December 31, 2005

	Enterprise Funds			
	General Operating	Bond Sinking	Nonmajor	Total
Operating receipts:				
Charges for services	\$ 6,982,081	\$ -	\$ -	\$ 6,982,081
Use of money and property	89,091	-	696	89,787
Miscellaneous	185,603	-	29,850	215,453
Total operating receipts	<u>7,256,775</u>	<u>-</u>	<u>30,546</u>	<u>7,287,321</u>
Operating disbursements:				
Power purchased	3,058,863	-	-	3,058,863
Employee expense	955,008	-	-	955,008
Contract labor	6,659	-	-	6,659
Repairs and maintenance	632,098	-	-	632,098
Supplies and services	109,853	-	-	109,853
Capital outlay	135,349	-	-	135,349
Sales and use tax	281,790	-	-	281,790
Gas and oil	149,077	-	-	149,077
Insurance	290,790	-	-	290,790
Franchise fee	105,298	-	-	105,298
Economic development	18,159	-	-	18,159
Energy conservation	13,862	-	-	13,862
Customer deposits	-	-	27,636	27,636
Utilities	29,180	-	-	29,180
Miscellaneous	49,818	-	-	49,818
Debt service:				
Bond principal payment	-	655,000	-	655,000
Interest	-	238,820	-	238,820
Total operating disbursements	<u>5,835,804</u>	<u>893,820</u>	<u>27,636</u>	<u>6,757,260</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,420,971</u>	<u>(893,820)</u>	<u>2,910</u>	<u>530,061</u>
Other financing sources (uses):				
Operating transfers in	-	894,370	1,509,845	2,404,215
Operating transfers out	(1,884,715)	-	(519,500)	(2,404,215)
Total other financing sources (uses)	<u>(1,884,715)</u>	<u>894,370</u>	<u>990,345</u>	<u>-</u>
Net change in cash balances	(463,744)	550	993,255	530,061
Cash balance beginning of year	<u>3,162,105</u>	<u>223,913</u>	<u>(54,226)</u>	<u>3,331,792</u>
Cash balance end of year	<u>\$ 2,698,361</u>	<u>\$ 224,463</u>	<u>\$ 939,029</u>	<u>\$ 3,861,853</u>
Cash basis net assets				
Unrestricted	<u>\$ 2,698,361</u>	<u>\$ 224,463</u>	<u>\$ 939,029</u>	<u>\$ 3,861,853</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements include only the funds of the Maquoketa Municipal Electric Utility (the Utility). The Utility has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. Based on the above criteria, the Utility has determined that there are no potential component units which must be included in the Utility's financial statements as of and for the year ended December 31, 2005.

The Maquoketa Municipal Electric Utility is includable as a component unit within the City of Maquoketa, Iowa, reporting entity because it has the potential to provide specific benefits to, or impose specific financial burdens on the City of Maquoketa, Iowa.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Cash Receipts, Disbursements, and Changes in Cash Balances reports information on all of the activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement.

Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

Fund Financial Statements - Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining enterprise funds are aggregated and reported as nonmajor enterprise funds.

The Utility reports the following major enterprise funds:

General Operating Fund

Receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Sinking Fund

This fund is used to accumulate funds which are used to make the regularly scheduled principal and interest payments on the revenue notes payable.

C. Measurement Focus and Basis of Accounting

The Utility maintains its financial records on the cash basis for receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not report to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Utility Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing statutorily prescribed procedures.

NOTE 2 – DEPOSITS AND POOLED INVESTMENTS

The Utility's deposits in banks at December 31, 2005, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by state statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$871,115 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 – NOTES PAYABLE

Annual debt service requirements to maturity for revenue notes are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 685,000	\$ 212,125	\$ 897,125
2007	715,000	183,010	898,010
2008	745,000	151,550	896,550
2009	780,000	117,655	897,655
2010	815,000	81,005	896,005
2011	855,000	41,890	896,890
	<u>\$4,595,000</u>	<u>\$ 787,235</u>	<u>\$5,382,235</u>

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the net revenues of the Utility.
- (b) Establish an Electric Revenue Sinking Fund and make a monthly cash transfer equal to 1/6 of the interest coming due on the next succeeding interest payment date plus 1/12 of the principal coming due on the next succeeding principal payment date.
- (c) Establish a reserve account in the sum of \$716,500.
- (d) Establish rates to produce gross revenues sufficient to pay the expenses of operation and maintenance of the Utility, and leave a balance of net revenues sufficient to pay the annual installments of principal and interest on all outstanding notes.

The Utility is in compliance with the provisions noted above.

NOTE 4 – COMPENSATED ABSENCES

Utility employees accumulate vacation, sick leave, and compensatory time for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate maximum liability for unrecognized accrued employee benefits is as follows:

<u>Type of Benefit</u>	<u>Amount at December 31, 2005</u>
Vacation	\$ 53,051
Sick leave	237,699
Compensatory time	1,268
	<u>\$ 292,018</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 5 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended December 31, 2005 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Bond Sinking	General Operating	\$ 894,370
Capital Projects	General Operating	990,345
Capital Projects	Electric Surplus	519,500
		<u>\$ 2,404,215</u>

The purpose of the transfer to the Capital Project Fund was to close out the Capital Project Fund negative balance.

The purpose of the transfer to the Bond Sinking Fund was to allocate amounts required for payments on revenue notes.

NOTE 6 – PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute for plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary, and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended December 31, 2005, 2004, and 2003, were \$48,416, \$45,389, and \$38,968, respectively, and each equal to the required contributions for each year.

NOTE 7 - RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered through the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 - COMMITMENTS

The Utility has entered into a development agreement with the City of Maquoketa (City), the Maquoketa Industrial Development Assistance Service, Jackson County, and Family Dollar Services, Inc. The agreement calls for the City to make a grant to the Utility of \$1,300,000 to fund electric improvements to the industrial park on the south side of the City and to the property purchased by Family Dollar Services, Inc. The Utility will make an annual payment to the City each July 1 from 2002 through 2017 equal to the difference between the debt service payment due on bonds issued by the City to fund the electric improvements and certain other public improvements minus \$87,000. This annual payment is \$48,745.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 9 – NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by Maquoketa Municipal Electric Utility. The statements which may affect the Utility are as follows:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the Utility for the year ending December 31, 2008. This statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Utility for the year ending December 31, 2009. This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

The Utility's management is working with the auditors to determine the effect these Statements will have on the Utility's financial statements.

NOTE 10 – RELATED PARTY TRANSACTIONS

As stated in Note 1, Maquoketa Municipal Electric Utility is a component unit of the City of Maquoketa, Iowa. The City pays the Utility for electric service to City-owned facilities and also pays the Utility for labor performed by Utility employees on city property. For the year ended December 31, 2005, the utility received the following amounts from the City:

Electric service	\$ 198,389
Labor	<u>15,264</u>
	<u><u>\$ 213,653</u></u>

NOTE 11 – REVENUE NOTES COMPLIANCE

A provision of the revenue notes requires the utility to establish and adjust rates to produce gross revenues at least sufficient to pay the expenses of operations and maintenance of the utility and to leave a balance of net revenues sufficient to pay the annual installment of principal and interest on the notes. For the year ended December 31, 2005, the Utility produced revenues sufficient to meet this provision. The Utility implemented rate increases during 2005 which management deemed necessary to prevent future noncompliance.

REQUIRED SUPPLEMENTAL INFORMATION

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
ACTUAL TO BUDGET
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2005

		Budgeted Amounts		Variance
	Actual	Original Budget	Final Budget	Final to Actual Favorable (Unfavorable)
Receipts:				
Use of money and property	\$ 89,787	\$ 78,700	\$ 87,707	\$ 2,080
Charges for services	6,982,081	6,311,000	6,971,102	10,979
Miscellaneous	215,453	72,500	199,525	15,928
Total receipts	<u>7,287,321</u>	<u>6,462,200</u>	<u>7,258,334</u>	<u>28,987</u>
Disbursements	<u>6,757,260</u>	<u>6,998,275</u>	<u>7,225,500</u>	<u>468,240</u>
Excess (deficiency) of receipts over (under) disbursements	<u>530,061</u>	<u>(536,075)</u>	<u>32,834</u>	<u>497,227</u>
Other financing sources (uses):				
Operating transfers in	2,404,215	1,315,371	2,825,216	(421,001)
Operating transfers out	<u>(2,404,215)</u>	<u>(1,315,371)</u>	<u>(2,825,216)</u>	<u>421,001</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	530,061	(536,075)	32,834	497,227
Cash balance beginning of year	<u>3,331,792</u>	<u>3,331,792</u>	<u>3,331,792</u>	<u>-</u>
Cash balance end of year	<u>\$ 3,861,853</u>	<u>\$ 2,795,717</u>	<u>\$ 3,364,626</u>	<u>\$ 497,227</u>
Cash basis net assets				
Unrestricted	<u>\$ 3,861,853</u>	<u>\$ 2,795,717</u>	<u>\$ 3,364,626</u>	<u>\$ 497,227</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
NONMAJOR ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2005

	<u>Capital Projects</u>	<u>Electric Surplus</u>	<u>Bond Reserve</u>	<u>Customer Deposits</u>	<u>Total</u>
Operating receipts:					
Use of money and property	\$ -	\$ -	\$ -	\$ 696	\$ 696
Miscellaneous	-	-	-	29,850	29,850
Total operating receipts	-	-	-	30,546	30,546
Operating disbursements:					
Customer deposits	-	-	-	27,636	27,636
Excess of receipts over disbursements	-	-	-	2,910	2,910
Other financing sources (uses):					
Operating transfers in	1,509,845	-	-		1,509,845
Operating transfers out		(519,500)	-		(519,500)
Total other financing sources (uses)	1,509,845	(519,500)	-	-	990,345
Net change in cash balances	1,509,845	(519,500)	-	2,910	993,255
Cash balance beginning of year	(1,509,845)	691,000	716,500	48,119	(54,226)
Cash balance end of year	<u>\$ -</u>	<u>\$ 171,500</u>	<u>\$ 716,500</u>	<u>\$ 51,029</u>	<u>\$ 939,029</u>
Cash basis net assets					
Unrestricted	<u>\$ -</u>	<u>\$ 171,500</u>	<u>\$ 716,500</u>	<u>\$ 51,029</u>	<u>\$ 939,029</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
GENERAL OPERATING FUND
As Of And For The Year Ended December 31, 2005

	<u>Operating Account</u>	<u>Insurance Account</u>	<u>Vehicle Reserve- Distribution</u>
Operating receipts:			
Charges for services:			
Residential	\$ 2,392,363	\$ -	\$ -
Comercial	2,962,353	-	-
Security lights	72,106	-	-
Power sales	1,555,259	-	-
	<u>6,982,081</u>	<u>-</u>	<u>-</u>
Use of money and property:			
Interest on investments	89,091	-	-
Miscellaneous	23,833	-	-
	<u>112,924</u>	<u>-</u>	<u>-</u>
Miscellaneous:			
Refunds	3,018	-	-
Miscellaneous	158,644	108	-
	<u>161,662</u>	<u>108</u>	<u>-</u>
Total operating receipts	<u>7,256,667</u>	<u>108</u>	<u>-</u>
Operating disbursements:			
Administration	1,025,775	-	-
Power plant	3,694,586	-	-
Distribution	1,058,806	1,288	55,349
	<u>5,779,167</u>	<u>1,288</u>	<u>55,349</u>
Total operating disbursements	<u>5,779,167</u>	<u>1,288</u>	<u>55,349</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,477,500</u>	<u>(1,180)</u>	<u>(55,349)</u>
Other financing sources (uses):			
Transfers in (out):			
Operating account	-	4,000	75,000
Insurance account	(4,000)	-	-
Vehicle reserve distribution	(75,000)	-	-
Vehicle reserve plant	(9,000)	-	-
Heavy equipment account	(15,000)	-	-
Sub 1 improvement account	(200,000)	-	-
Fuel tank replacement	(100,000)	-	-
Bond sinking account	(894,370)	-	-
Capital projects account	(960,414)	-	-
	<u>(2,257,784)</u>	<u>4,000</u>	<u>75,000</u>
Total other financing sources (uses)	<u>(2,257,784)</u>	<u>4,000</u>	<u>75,000</u>
Net change in cash balances	(780,284)	2,820	19,651
Cash balance, beginning of year	<u>2,953,693</u>	<u>51,677</u>	<u>75,845</u>
Cash balance end of year	<u>\$ 2,173,409</u>	<u>\$ 54,497</u>	<u>\$ 95,496</u>

Schedule 2

<u>Vehicle Reserve- Plant</u>	<u>Power Requiremnts Account</u>	<u>Heavy Equipment Account</u>	<u>Boiler Replacement Account</u>	<u>Sub I Improvement Account</u>	<u>Fuel Tank Replacement</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,392,363
-	-	-	-	-	-	2,962,353
-	-	-	-	-	-	72,106
-	-	-	-	-	-	1,555,259
-	-	-	-	-	-	6,982,081
-	-	-	-	-	-	89,091
-	-	-	-	-	-	23,833
-	-	-	-	-	-	112,924
-	-	-	-	-	-	3,018
-	-	-	-	-	-	158,752
-	-	-	-	-	-	161,770
-	-	-	-	-	-	7,256,775
-	-	-	-	-	-	1,025,775
-	-	-	-	-	-	3,694,586
-	-	-	-	-	-	1,115,443
-	-	-	-	-	-	5,835,804
-	-	-	-	-	-	1,420,971
9,000	-	15,000	-	200,000	100,000	403,000
-	-	-	-	-	-	(4,000)
-	-	-	-	-	-	(75,000)
-	-	-	-	-	-	(9,000)
-	-	-	-	-	-	(15,000)
-	-	-	-	-	-	(200,000)
-	-	-	-	-	-	(100,000)
-	-	-	-	-	-	(894,370)
-	(28,923)	-	(1,008)	-	-	(990,345)
9,000	(28,923)	15,000	(1,008)	200,000	100,000	(1,884,715)
9,000	(28,923)	15,000	(1,008)	200,000	100,000	(463,744)
956	28,923	3	1,008	50,000	-	3,162,105
\$ 9,956	\$ -	\$ 15,003	\$ -	\$ 250,000	\$ 100,000	\$ 2,698,361

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF DISBURSEMENTS
OPERATING ACCOUNT
Year Ended December 31, 2005

Administration:

Salaries	\$ 192,172
FICA and IPERS	25,917
Insurance	250,884
Sales and use tax	281,790
Franchise fee	105,298
Materials and repairs	18,591
Postage	17,136
Meeting expense	2,389
Dues	25,219
Supplies	21,238
Professional fees	34,847
Utilities	8,553
Advertising	2,112
Energy conservation	13,862
Economic development	18,159
Miscellaneous	7,608
Total administration	<u>1,025,775</u>

Power Plant:

Salaries	231,442
FICA and IPERS	31,014
Purchased power	3,058,863
Insurance	38,618
Materials and repairs	177,692
Meeting expense	767
Supplies	15,835
Utilities	4,228
Natural gas	51,233
Fuel oil	79,322
Lubricants	5,572
Total power plant	<u>3,694,586</u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF DISBURSEMENTS
OPERATING ACCOUNT
Year Ended December 31, 2005

Distribution:

Salaries	\$ 418,397
FICA and IPERS	56,066
Contract labor	6,659
Insurance	1,288
Materials and repairs	191,418
Meeting expense	7,818
Supplies	20,797
Utilities	16,399
Gas and oil	12,950
Tools	132,133
Conductor and poles	26,392
Building addition	80,000
Transformers	75,675
Meters	10,197
Vehicle reserve	55,349
Miscellaneous	3,905
Total distribution	<u>1,115,443</u>
Total disbursements	<u><u>\$ 5,835,804</u></u>

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF INDEBTEDNESS
Year Ended December 31, 2005

Obligation	Date of Issuance	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Electric revenue notes	November 1, 2001	4.15 - 4.8%	\$ 3,570,000	\$ 2,645,000	\$ -	\$ 330,000	\$ 2,315,000	\$ 119,325	\$ -
Electric revenue notes	May 1, 2002	4.15 - 4.8%	\$ 3,595,000	<u>2,605,000</u>	<u>-</u>	<u>325,000</u>	<u>2,280,000</u>	<u>119,495</u>	<u>-</u>
				<u>\$ 5,250,000</u>	<u>\$ -</u>	<u>\$ 655,000</u>	<u>\$ 4,595,000</u>	<u>\$ 238,820</u>	<u>\$ -</u>

**INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Utility Board of Trustees
Maquoketa Municipal Electric Utility
Maquoketa, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Maquoketa Municipal Electric Utility, as of and for the year ended December 31, 2005, which collectively comprise the Utility's basic financial statements listed on the table of contents and have issued our report thereon dated March 23, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Maquoketa Municipal Electric Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Maquoketa Municipal Electric Utility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maquoketa Municipal Electric Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an effect on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no prior year statutory comments.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Maquoketa Municipal Electric Utility, the citizens of the City of Maquoketa and other parties to whom Maquoketa Municipal Electric Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the co-operation and assistance provided by the personnel of Maquoketa Municipal Electric Utility during the course of our audit. Should you have any questions concerning any of the above matters, do not hesitate to contact us.

Maquoketa, Iowa
March 23, 2006

**MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
December 31, 2005**

Part I: Findings Related to the Financial Statements :

REPORTABLE CONDITION

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that cash collections, bank deposits, and cash receipts postings are at times done by the same person. We also noted that the person who prepares the bank reconciliation is also an authorized check signer.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We continue to assess obtaining this goal with the current staff size.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting :

II-A-05 Depositories - A resolution naming official depositories has been approved by the Utility Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2005.

II-B-05 Certified Budget - Disbursements during the year ended December 31, 2005 did not exceed amounts budgeted.

II-C-05 Questionable Disbursements - We noted no disbursements that we believe would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No disbursements of Utility money for travel expenses of spouses of utility officials or spouses of utility employees were noted.

II-E-05 Business Transactions - We noted no business transactions between the Utility and Utility officials or employees that appear to represent a conflict of interest.

II-F-05 Bond Coverage - Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

II-G-05 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

MAQUOKETA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
December 31, 2005

Part II: Other Findings Related to Statutory Reporting: (continued)

- II-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.

- II-I-05 Revenue Notes - During the year ended December 31, 2005, the Utility met the provision of the revenue notes that requires the net revenues of the Utility be sufficient to pay the expenses of operation and maintenance of the Utility and to leave a balance of net revenues sufficient to pay the principal and interest on the revenue notes.

- II-J-05 Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.